



Quarterly Update

Forest Investment Associates

FIRST QUARTER 2018

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Summary Update

Timber and Product Prices – Overall markets in the Northeast continue to improve, however select species including Black Cherry and Northern red oak have seen noticeable increases. Robust demand continues in the Pacific Northwest as pressure from both domestic and export sources impact prices. Lumber and panel prices rebounded slightly over the first quarter, making up for minor losses seen in the previous three months.

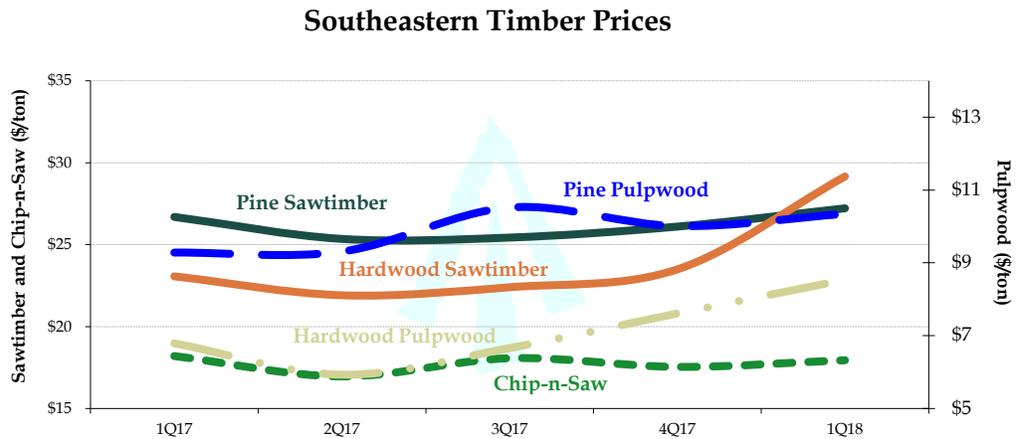
February housing starts retrenched to a seasonally adjusted annual rate of 1.236 million units. This rate was 7.0% below the revised January rate of 1.329 million units, and 4.0% below the February 2017 rate of 1.288 million units. The average interest rate for 30-year fixed rate mortgages increased for the sixth straight month, rising from 4.33% in February to 4.44% in March.

Timberland Markets – The Pacific Northwest dominated the timberland market in the first quarter, with five separate closings totaling over \$450 million in transaction value. The largest transaction was Roseburg’s sale of 170,000 acres in California to New Forests for \$245 million. Hancock (HTRG) was also an active seller in Washington, closing three separate transactions totaling over 40,000 acres for a combined \$190 million to Olympic Resource Management (ORM) and Hampton.

Investors continue to wait for details on the 1.1 million-acre Caddo offering in east Texas. Campbell Global is rumored to be working with a potential buyer, but information on the deal remains limited.

Timber Prices

Southeastern – Positive price movement occurred for all five southern benchmark products. Forest2Market® reported a 4.3% increase in Southern pine sawtimber prices over the first quarter of 2018. This is the third consecutive quarterly increase for pine sawtimber, however prices remain only 2.0% above last year’s level. Pine pulpwood prices increased 3.4%, while hardwood pulpwood prices increased 12.2%. The South-wide average price for hardwood sawtimber increased significantly, rising 24.1% over the first quarter, ending 26.4% above year-ago levels.

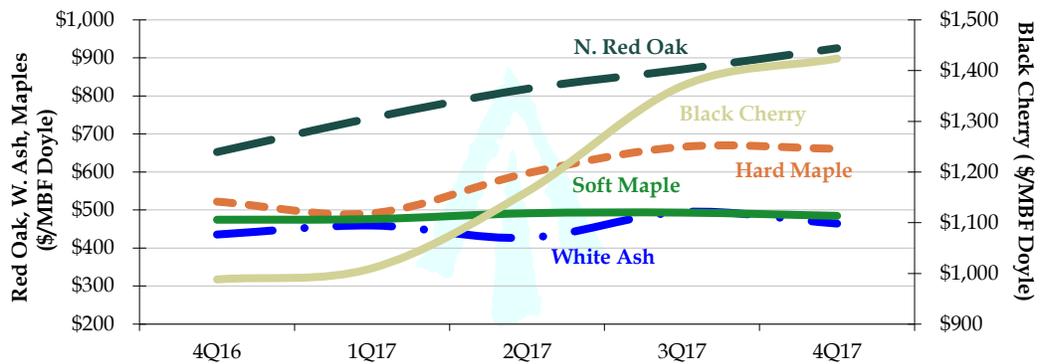


Source: Forest2Market®

Northern Hardwoods – The demand for hardwood logs and lumber continues to be strong in the Northeast. Chinese demand for Black Cherry logs has especially impacted markets. According to the Pennsylvania Woodlands Timber Market Report, black cherry prices improved 4.0% during the fourth quarter (the most recent publicly reported pricing), ending 44.1% above year-ago levels. Northern red oak prices increased 6.4% last quarter, finishing 41.8% above year-ago prices. Hard maple prices decreased 0.8% over the quarter, ending up 26.6% year-over-year. Soft maple prices diminished 1.7%, ending the year 2.1% above last year’s level.

Wisconsin markets remained strong throughout the first quarter particularly for hard maple sawlogs and veneer logs. Yellow birch and basswood demand was lackluster while white ash demand continued to be very strong. Hardwood bolts used for flooring have taken a noticeable upswing as a result of the steady housing market recovery. Pulpwood demand was steady as mills scrambled to build inventory ahead of wet summer operating conditions.

Northeastern Hardwood Timber Prices

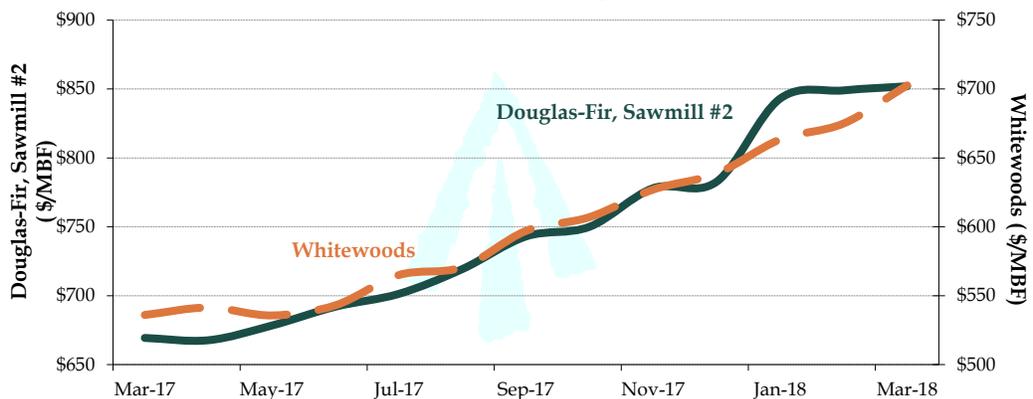


Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest – Pacific Northwest (PNW) timber markets continue to exceed expectations. According to Log Lines®, Pacific Northwest average delivered prices for Douglas-fir #2 logs increased for the ninth consecutive quarter, rising 8.9% over the first quarter, ending the quarter 27.3% above year-ago levels. Whitewoods (i.e., true firs and hemlock) average delivered log prices followed the same trend, growing 10.0%, and ended the quarter 31.1% ahead of year-ago levels.

Japanese demand for high quality Douglas-fir remains strong and is expected to be sustained through the second quarter. Chinese demand has flattened over the first quarter, but still remains higher when compared to this same period last year. Domestic demand is very strong and still near or past all-time highs as limited inventories exist in most all PNW regions.

Pacific Northwest Log Prices

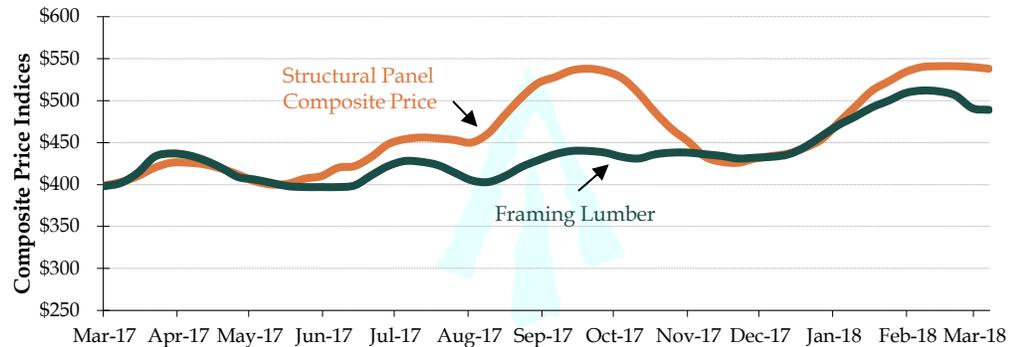


Source: Log Lines®

Product Prices

Lumber and Panels – Panel and lumber prices improved over the first quarter, making up for losses experienced over the fourth quarter of 2017. The Random Lengths® Framing Lumber Composite Price increased 12.9% over the first quarter, and prices remain 21.6% above last year’s level. The Structural Panel Composite Price improved 24.0% over the quarter, ending 33.5% ahead of year-ago levels.

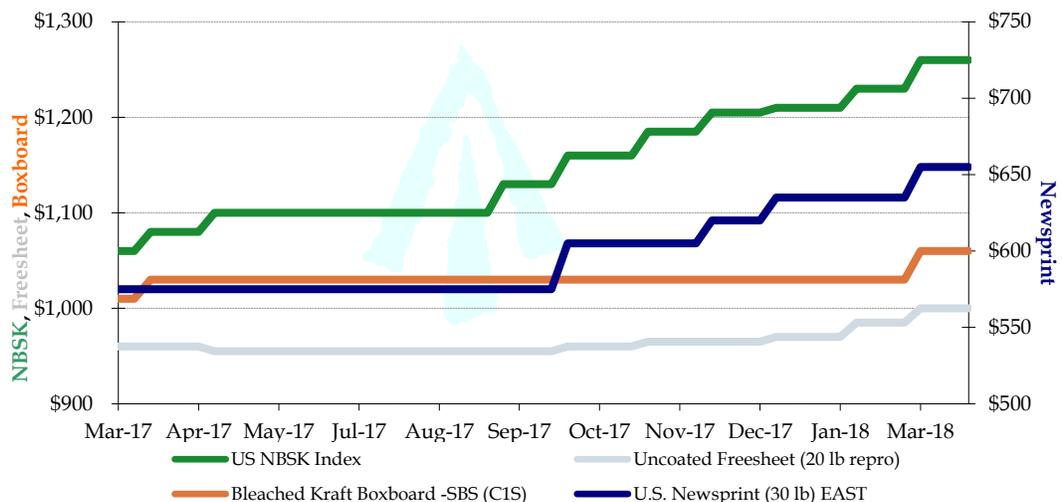
Lumber and Panel Prices



Source: Random Lengths®

Pulp and Paper – The benchmark NBSK (northern bleached softwood kraft) pulp price index continues to improve, rising 4.6% over the first quarter, ending the 18.9% above year-ago levels. U.S. Newsprint (30 lb.) increased for the second consecutive quarter, increasing 5.6%. Uncoated freesheet (20 lb.) and boxboard prices showed positive movements, increasing 3.6% and 2.9% respectively.

Pulp and Paper Prices (\$/short ton)



Source: FOEX Indexes, Ltd., RISI Pulp & Paper Week

Timberland Markets

Transactions – In the South, Rayonier closed its sale of 24,600 acres in Alabama to IKEA for a reported \$53.3 million. In Tennessee, BTG Pactual sold a 20,000-acre package to a private buyer for an undisclosed price.

In the Northeast, Conservation Forestry sold 125,000 acres in Maine to a private buyer for a reported \$78.1 million.

In the Pacific Northwest, Roseburg completed the sale of 170,000 acres in California to New Forests for \$245 million. Hancock (HTRG) sold three separate packages in Washington in the first quarter. The largest, a 17,000-acre package, was purchased by Olympic Resource Management (ORM) for a reported \$80 million. The other two packages, totaling 23,100 acres, were bought by Hampton for a total price of approximately \$110 million. In Oregon, ORM purchased 20,000 acres from a private seller for \$34 million.

Transactions in Progress – The 1.1-million-acre package known as Caddo in east Texas from Campbell Global continues to linger in the market. Investment banker Perella Weinberg took third quarter bids on the massive property, held by CalPERS. There are many rumors swirling about the deal, but investors continue to wait for final details. Also in the South, BTG Pactual took fourth quarter bids on a 155,000-acre package in Alabama, Mississippi, and Tennessee, but ultimately decided not to sell.

Investors are expecting a large offering in Texas and Louisiana to come to the market in the second quarter, but deal flow remains limited otherwise. There have been very few transactions this year, with only a few negotiated deals closing thus far. However, deal flow should pick up as we move into the summer months.

International Update

Optimism rules the day across most major global trade flows in the forest industry. North American wood product producers look to expand capacity in several key sectors, such as engineered wood, lumber and panels to feed into the supply-constrained U.S. market. Meanwhile, international markets continue to exhibit strong fundamentals. From South American pulp producers to Australasian log exporters, global demand for forest products remains robust.

Chile – As the Chilean fire season winds down, the area impacted returned to trend which equates to approximately 10% of what was impacted last year. This improvement was driven

primarily by increased fire prevention, early detection and fire-fighting efforts through the coordination of the Chilean forest industry, government and local communities.

Strong global pulp pricing and a positive outlook are benefiting Chilean pulp manufacturers as well as woodchip exporters. Major Chilean companies, such as Arauco, the country's largest forest products company (controlled by Empresas Copec S.A.), and CMPC have announced intentions to continue expanding industrial capacity. COMACO, one of Chile's major hardwood chip exporters, announced the construction of a new chipping facility in the port of Coronel with an annual capacity of 555,000 metric tons of bone dry chips.

Sebastian Pinera, Chile's new president, has announced new appointments for some of the forest industry's key leadership positions. Jose Manuel Rebolledo was appointed the director of CONAF, a non-profit organization through which the Chilean government manages its forestry policy. Mr. Rebolledo is a forest engineer with more than 30 years of experience in the sector, having worked in the past for companies such as Shell and Arauco. For INFOR, Chile's public R&D and statistics organization, Mr. Pinera named Fernando Raga as its new chief executive. Mr. Raga had been a member of INFOR's board for 27 years, and previously served as a director for CMPC Maderas.

Brazil – The October 2018 general election is moving to the forefront after the latest legal drama and subsequent incarceration of former President Luis Inácio Lula da Silva. Despite the implementation of market-friendly policies by the Temer government, uncertainty around the presidential elections continues with no clear emergence of a frontrunning party or candidate. National polls indicate a tense political environment, but the election should begin to take shape late in second quarter and into third quarter. Inflation remains at the low end of the Brazilian Central Bank's target. In fact, March posted the lowest monthly inflation rate since 1994.

Meanwhile, the Brazilian Central Bank has lowered the SELIC rate, Brazil's overnight rate, to 6.50% which is a record low. Gradual economic recovery is forecasted by most economists in this interest rate environment alongside increased political clarity.

The Brazilian forest sector started 2018 strong as exports registered 39.8% year-over-year growth, reaching \$1.7 billion. The domestic market shows recovery across all segments. Wood panels registered an increase in consumption of 6.4%. Overall paper and packaging grew 3.0% with tissue at 5.8%. On March 15th, Suzano announced it acquired Fibria, subject to local anti-trust approvals, creating the world's largest pulp producer. Fibria and Suzano, are currently the first and second largest producers of eucalyptus pulp in the world.

Economic News

Housing – U.S. housing starts declined in February, returning to a long-term trend of modest improvement in single-family construction and a slowdown in apartment building. Total housing starts fell 7% in February from the previous month to a seasonally adjusted annual rate of 1.236 million. Multifamily construction plummeted 26.1% in February, after activity in this segment increased robustly in January. Single-family starts, meanwhile, rose 2.9% compared with a month earlier. Residential building permits also declined 5.7% to an annual pace of 1.298 million.

Mortgage Rates – As of the beginning of April, the 30-year fixed-rate stood at approximately 4.5%, up half a percent in the last quarter.

Jobs – Private companies added 241,000 positions in March as employment in construction and manufacturing surge, well ahead of estimates and marking the fifth straight month that private payroll growth topped 200,000.

Consumer Confidence – U.S. consumer confidence fell slightly in March, dragged down by consumers' perception of current and future economic conditions in light of recent stock-market gyrations, declining to 127.7 in March from an 18-year high of 130.0 in February.

Inflation – U.S. consumer prices continued to firm through February, indicating inflation is creeping up toward the Federal Reserve's target without the kind of breakout that would warrant a faster pace of interest-rate hikes. The CPI was up 2.2% in the 12 months through February, compared with 2.1% in January, while the core index increased 1.8% from a year earlier.

Trade Deficit – Prior to President Trump's announcement of a policy for tariffs, the U.S. trade deficit increased to a more than nine-year high. In January the trade gap jumped 5.0% to \$56.6 billion, the highest level since October 2008.

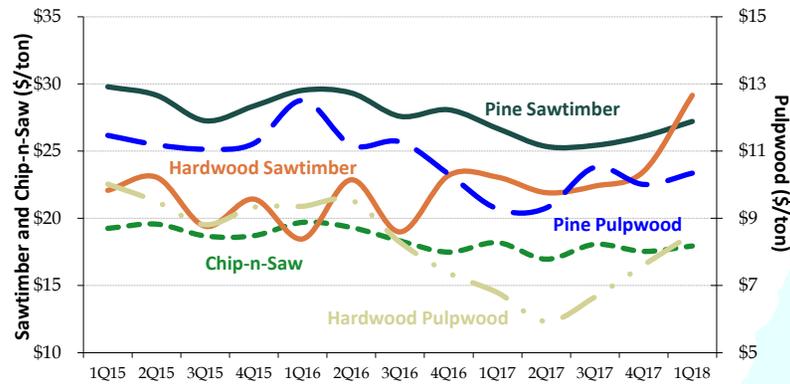
Interest Rates – The yield on 10-year treasuries hit a high of just short of approximately 2.95% in late February, but has retreated to approximately 2.8% as of the end of the quarter.

Oil Prices – Oil prices have bounced between \$60 and \$70 per barrel for the first quarter, as U.S. crude oil output rose to a record high of over 10 million barrels per day in mid-March. The International Energy Agency announced that the US could become the world's top crude oil producer by 2023.

U.S. Dollar – The U.S. dollar has been trending lower for the full first quarter, with the U.S. dollar index moving from slightly above 92 to levels around 90.

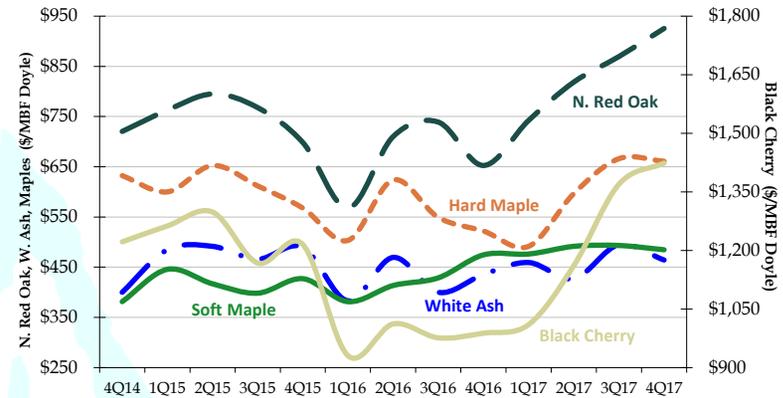
The FIA Timber Economics “Quarterly Dashboard”

Southeastern Timber Prices



Source: Forest2Market®

Northeastern Hardwood Timber Prices



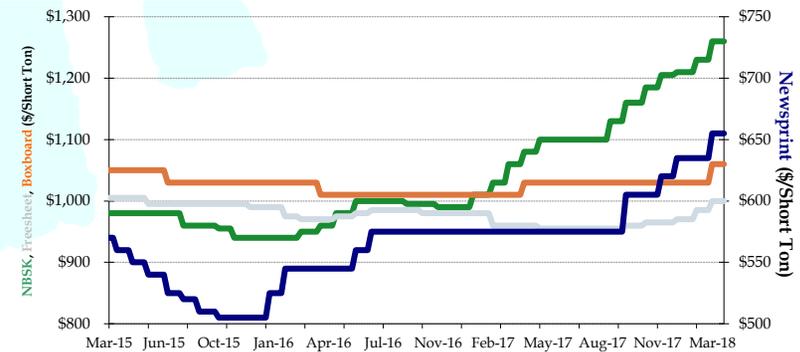
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest Timber Prices



Source: Log Lines®

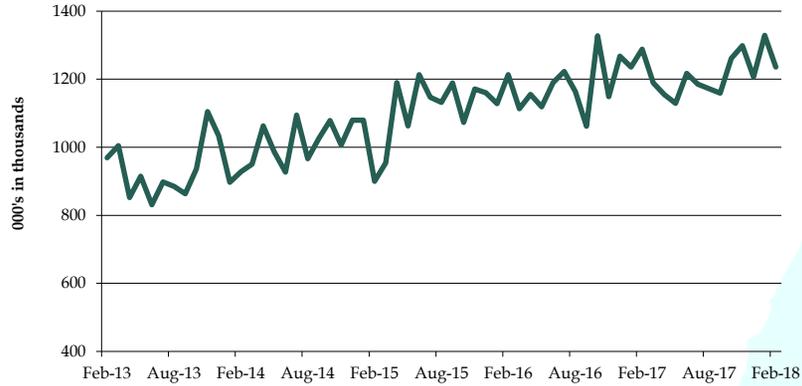
Pulp and Paper



Source: FOEX Indexes, Ltd., RISI Pulp & Paper Week

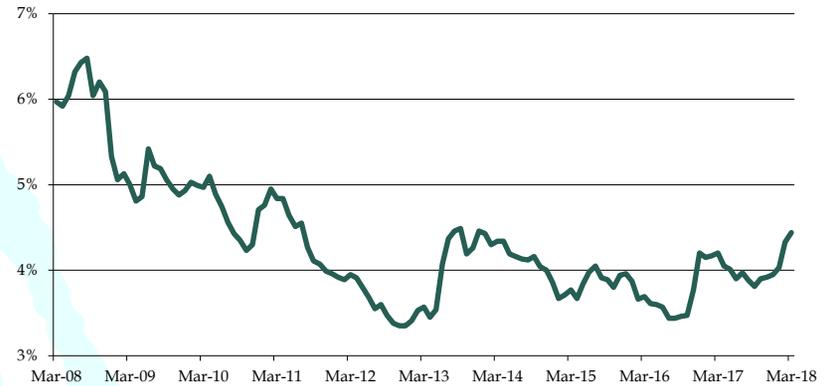
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Housing Starts



Source: NAHB.org - <http://www.nahb.org/>

30 yr. Mortgage



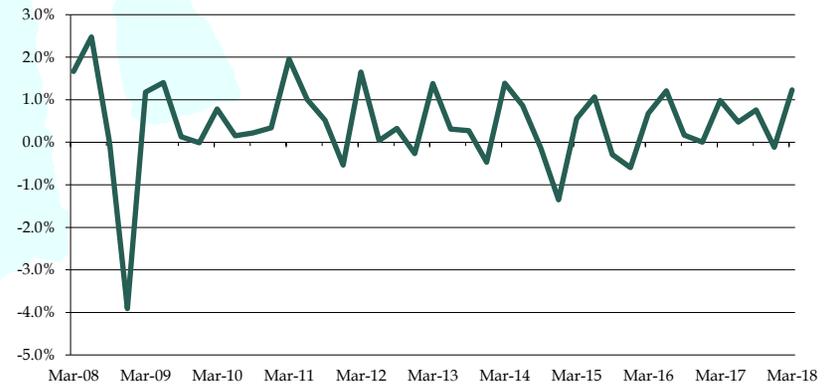
Source: The Federal Reserve

Lumber



Source: U.S. Department of Labor, Bureau of Labor Statistics

Inflation (CPI)



Source: <http://www.bls.gov/cpi/home.htm>